

Q&A

JOB LOSS: What Income is Taxable?

The following Questions and Answers are provided by the Internal Revenue Service to clarify the tax implications of financial issues faced by workers who have lost their jobs. References are provided for additional information.

Is Severance Pay taxable?

Yes, severance pay is taxable in the year that you receive it. Your employer will include this amount on your Form W-2 and will withhold appropriate federal and state taxes. See Publication 525 for additional information.

What about Accumulated Leave or Vacation Pay and Sick Pay?

Yes, annual, or vacation pay, and sick pay are calculated as wages by your employer and will be included in your Form W-2.

Is Unemployment Compensation taxable?

Yes, your state unemployment insurance benefits (up to 26 weeks) and your extended benefits (up to an additional 13 weeks) are taxable. You may choose to have 15% withheld for federal taxes by completing Form W-4V. The State will provide you with a Form 1099-G prior to January 31st of each year, showing the amount of taxable benefits paid in the prior year. See Publication 525 for additional information.

What about Gifts of Cash and Property from Family or Friends?

Generally, the person who receives the gift is not liable for any taxes on the gift. If the gift produces income like interest, dividends or rent payments, the receiver would be responsible for taxes on the income. Gifts up to \$11,000 do not create a taxable event to either the giver or the receiver. Gifts in excess of \$11,000 may be subject to a gift tax. See Publications 17 or 950 for additional information.

If I am eligible for Public Assistance or Food Stamps, is it taxable? No.

When will I get my final Form W-2 from my employer?

Your employer must provide your Form W-2 by January 31st after the close of the calendar year. As an example, 2002 Forms W-2 are due to employees by January 31, 2003.

What if my employer filed bankruptcy or went out of business, how do I get my Form W-2?

In either case the employer must file and report your wages and withholding on a Form W-2 at year's end. If you do not receive your Form W-2, try to contact your employer or their representative. If you are unsuccessful, the IRS can assist you in filing a substitute Form W-2 using your records. A good precaution is to keep year-to-date records or pay stubs until you receive your Form W-2.

Can I file an early tax return and receive any refund due?

No. Individual income tax returns are based on a calendar year and cannot be filed and processed earlier than January 1st of the next calendar year.

If I sell other assets like stocks, bonds, and investment property, are they immediately taxable?

Not necessarily, however the sale of such assets should be reported. If you have a gain on the sale, it may generate an income tax liability. You should review your overall tax situation and make sure you have paid your taxes as required to avoid any estimated tax penalty. Information on estimated tax is in Publication 505.

What can I do if I owe taxes and cannot pay them?

Contact the Internal Revenue Service as soon as possible to develop a plan. Communication is the key to minimizing problems.

Is special assistance available on unresolved tax matters that create hardships?

Yes, if you are suffering, or are about to suffer a significant hardship because of the way tax laws are being carried out (tax liens, levies, property seizures, etc.) you may seek help from the IRS Taxpayer Advocate Program by calling toll-free **1-877-777-4778**.

Copies of the referenced publications can be found at www.irs.gov, or you may call 1-800-829-3676.

